Testimony of Joseph L. Kull
Washington Federal Practice
PricewaterhouseCoopers
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House Government Reform Subcommittee on
Government Management, Finance, and Accountability
United States House of Representatives

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Mr. Chairman and members of the committee:

Thank you for the opportunity to comment on the Office of Management and Budget's [OMB] Financial Management Line of Business [FMLoB]].

Currently I am a Director in the Washington Federal Practice [WFP] of PricewaterhouseCoopers [PwC] specializing in federal financial and budget issues. My comments are based on almost 37 years of financial and budget management experience, including almost 32 years with the federal government. The views I will express are my own and do not necessarily represent the views of PwC.

I retired from the federal service in 2004 at the Office of Management and Budget where I was the Deputy Comptroller for Federal Financial Management for four years. Previously, I spent more than 15 years at the National Science Foundation including 10 years as its CFO and Budget Director, and almost 12 years at the Civil Aeronautics Board, with the last 5 as Comptroller and Budget director. I have a CPA, CGFM and MBA and believe

my education and experience provides me with a unique perspective on federal financial management.

The FMLoB initiative proposes to improve the cost, quality and performance of financial systems by leveraging shared service solutions and other government-wide reforms that enable efficiencies in federal financial management.

It is hard to argue with an idea that embraces those objectives, and it is reasonable to assume that over the next 10 years, the government will move toward a single system or set of systems and some form and level of shared services.   So the question is how to best manage it for success. The current proposal needs to be more strategic, focussed on performance rather than compliance, and set in a timeframe that is challenging yet achievable.   It also needs to set realistic expectations as to what can and can not be achieved.

First, let me comment on the current state of federal financial management, which I believe is good and getting better. Every year agencies are improving as they continue to find and clean up old accounting problems, tighten controls, improve the reliability of information, and improve the content and style of their reports. They report quarterly and have accelerated year end reporting to 45 days. More and more agencies are moving beyond transaction processing to providing program managers with reliable data in real time so they can better run their programs.

This is remarkable progress considering that most agencies started preparing GAAP based audited financial statements for the first time less than 10 years ago, and they were due 6 months after the close of the fiscal year!!   The federal financial community should be commended for its contributions to achieve this level of performance.

Of course there is still plenty of room for improvement; and it is for this reason that agencies should move gradually and thoughtfully toward FMLoB concept, and not be bound by arbitrary timeframes. Some agencies have major issues to resolve before they can get and sustain an unqualified---or clean---opinion to their financial statements, and all agencies are undergoing an intense effort to improve their internal controls.   This latter effort will focus attention and resources---people and dollars---on documentation, testing and remediation of their processes over the next several years.

Building a strong control environment at the component and department level should be the highest priority, and is especially critical before moving core financials to a services provider. Core systems are only as good as the data flowing into them from the feeder and subsystems.   Agencies need to be sure that their feeder and subsystem business processes and controls are working effectively before moving to a shared services environment.   Any improvements agencies can make in the business processes and controls of information flowing into their core systems will further improve the quality of information coming out of those systems.

The private sector can play an important role in this effort. Many firms already know the federal market and currently provide many of the accounting, auditing, software, hardware, and consulting services that will be necessary as agencies move toward shared services. These skills are at the core of private-sector businesses, and should be leveraged to help the government move toward shared services.

Many also have knowledge and experience with similar private sector efforts, and can leverage that knowledge to ensure agencies benefit from best practices. In fact, many private sector firms have moved to shared services and outside providers to focus their attention and resources on their core business activities.   There are valuable lessons to be learned from these experiences, including developing appropriate performance metrics, crafting enforceable service level agreements, transition and migration issues and strategies, and developing back up and continuity of operation plans to name just a few.

Private sector firms also have available a very large number of very talented and skilled staff, that can be brought in as appropriate, to address a particular issue or workload. Often, agencies need a critical mass of bright, energetic people to help get through a crisis. Other times, there may be a need for more experienced, highly-skilled staff to focus on a specific problem. Private sector firms have the depth and breadth of personnel to be able to provide such resources.

Moving to a shared service environment will also have audit implications for the agency serviced as well as the service provider. Most importantly, the new A-123 requires agencies to obtain an understanding of the controls at the service provider that are relevant to the agency's controls, as well as evidence that such controls at the service provider are operating effectively. This evidence can be obtained in various ways including performing tests or obtaining a service provider's auditor's report on controls placed in operation and tests of operating effectiveness (e.g., SAS 70 Type 2 report) or a report on the application of agreed-upon procedures that describes the relevant tests of controls.

 There will also be increased need for cooperation and communication between the auditors, management and the service providers to ensure that requests for information by the auditor are met adequately and on a timely basis. We would not want to see agencies lose their opinions simply because information needed by the auditor from the service provider was not received in time, or was not adequate to support the line item.

We should not assume that moving to a shared services environment will magically standardize business processes and core accounting systems. Transformation on this scale is difficult and tedious, made more so by the fact we are dealing with the largest, most complicated business enterprise in the world. The U.S. government conducts activities on a massive scale across every possible business enterprise. It collects more than $2.0 trillion a year

and unfortunately, spends even more. It literally touches almost every American's life every day.

To standardize the business processes for the 24 CFO Act agencies is like trying to standardize processes for the 24 largest corporations in the country. While private sector firms file SEC reports and meet GAAP standards, that does not mean their processes and systems are the same. The financial and performance data needed to run Exxon or Wal-Mart will not be the same as data necessary to run Microsoft or Bank of America. Data needs are driven by competition, market shares and the ability to attract capital.

There is another complicating factor. While there are viable financial management systems in agencies that might work for proprietary accounting, for most the principal financial driver is the budget. This means that in addition to GAAP and Treasury requirements, agencies must also comply with budgetary accounting requirements and appropriation laws. In fact, my experience as a CFO was that most program people wanted good budget execution data from the systems to run their programs, and were happy to let me worry about GAAP based financials as long as our systems gave them reliable and timely budget data to run their programs.

Besides simply moving in lockstep toward shared services, there is another way to use and reuse disparate data without wholesale system changes, and that is with Standards-Based Reporting through XBRL, which stands for Extensible Business Reporting Language. XBRL is a standardized way to tag

data, similar to bar coding. XBRL does NOT change the current USSGL and Federal GAAP standards -it simply captures the standards in an electronic or digital format that applications and systems can understand and process. That data element, wherever and whenever it used, whether in consolidations, financial reporting, fund balance with Treasury, budget execution, retains that tag allowing it to be permanently identified and remembered by any application or system. This form of data standardization allows disparate applications to communicate and share information automatically, and is alternative that should be looked as an interim solution as the government moves more and more toward shared services and standardization.

Finally, and perhaps most importantly, the FmLOB represents a major change in the way many agencies do business. Such change takes time, commitment and strong leadership for success. Many systems projects fail or falter because we have inadequate resources to train, educate and communicate with our people throughout the process. They need to understand what is going and why, feel a part of the process and the solution, and be trained to use the system properly. Whether creating new systems or improving old ones, people issues are often far more difficult to overcome than the technological ones. In the end, people can make a bad system work, and a good system fail.

Leadership and commitment are also absolutely critical for success. In 1990, the National Science Foundation [NSF] set a goal of being entirely paperless-- both programmatically and financially-- in approximately 5 years. This was

an ambitious goal as even the internet did not exist back then. Each NSF Director, there were about 4 of them in the 1990s, subscribed to this goal and kept it as a priority. The target date kept moving, largely due to rapid technology changes and resource constraints, but NSF management remained flexible. It was an iterative process, and today, NSF is virtually paperless.

Vision, leadership and commitment made this effort successful. Decisions about business processes, reporting, programs, and technology were made in order to move toward a paperless environment. Equally important was keeping an open mind as technology changed, which it did so rapidly in the 90's, and remaining able to adapt to those changes. It was by no means a perfect process, but it was more successful than most ventures like it. That same kind of leadership and commitment is needed if the FmLOB is to be a success.

Shared services and standardization are good ideas that can work with adequate time, leadership, commitment, and excellent people. The government has an abundance of all four if it chooses to use them. Thank you for the opportunity to comment.